

Message Text

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ACTION AID-59

INFO OCT-01 ISO-00 L-03 IO-13 AF-08 CIAE-00 COME-00 EB-08
FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02
CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
CEA-01 PA-02 PRS-01 AGRE-00 AS-01 /164 W
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FM AMEMBASSY ABIDJAN
TO DEPT OF TREASURY IMMEDIATE
INFO SECSTATE WASHDC 1998

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AFDF

TREASURY FOR GAASERUD

DEPT FOR NAC AGENCIES

E.O. 11652: N/A
TAGS: AFDB, EFIN, EAID
SUBJECT: PROPOSED AFDF LOAN TO FIANCE THE AMIBARA
IRRIGATION SCHEME IN ETHIOPIA

1. SUMMARY: AFDF MANAGEMENT PROPOSES 5 MILLION FUND UNIT
OF ACCOUNT(FUA EQUALS \$1.11US) LOAN TO GOVERNMENT OF ETHIOPIA TO
FINANCE A PORTION OF PROJECT PROVIDING GRAVITY IRRIGATION FOR
7,500 HECTARES OF LAND IN THE MIDDLE AWASH VALLEY, AND TO
CONVERT AN EXISTING PUMPED IRRIGATION SYSTEM SERVIING ANOTHER
2,800 HECTARES TO A GRAVITY SYSTEM. TOTAL COST OF PROJECT,
ESTIMATED AT 50 MILLION FUA, TO BE PARALLEL FINANCED BY AFDB,
IDA, EEC, AND GOVERNMENT OF ETHIOPIA.

2. AFDF DOC BD/77/11 AND ATTACHMENTS DESCRIBING LOAN POUCHED
TO ADDRESSEES FEB 4. BOARD CONSIDERATION SCHEDULED FOR FEB 21.

3. AFDF MANAGEMENT PROPOSES 5.0 MILION FUA LOAN TO GOVT OF
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ETHIOPIA. THE LOAN WOULD FINANCE APPROXIMATELY 99 PERCENT OF
TOTAL COST OF FOLLOWING PROJECT COMPONENTS, OF WHICH APPRXIMATELY
42 PERCENT WOULD REPRESENT FOREIGN EXCCCHANGE COSTS; A) MELKA SADI
WESTERN FLOOD DYKE (1.86 MILLION FUA); B) CONSTRUCTION OF
BUILDINGS AND HOUSING (1.762 MILLION FUA); C) EQUIPMENT AND
VEHICLES (791 THOUSAND FUA); D) ENVIRONMENTAL CONTROLS
(360 THOUSAND FUA); E) PROJECT SUPERVISION SUPPLIES (224

THOUSAND FUA). PROPOSED TERMS 50 YEARS AMORTIZATION INCLUDING 10 YEARS GRACE, 0.75 PERCENT SERVICE CHARGE. GOVERNMENT OF ETHIOPIA TO BE BORROWER, AWASH VALLEY DEVELOPMENT AGENCY(AVDA) EXECUTING AGENCY.

4. THE UNITED NATIONS DEVELOPMENT PROGRAOM(UNDP) UNDERTOOK A STUDY FROM 1961-1964 OF THE LAND AND WATER RESOURCE POTENTIAL OF THE AWASH RIVER BASIN THE CENTRAL EASTERN PRT OF ETHIOPIA. THE STUDY RECOMMENDED THE IRRIGATION DEVELOPMENT OF THE MELKA SADI AND AMIBARA AREAS IN THE MIDDLE VALLEY OF THE AWASH RIVER. 8, 1962, THE ETHIOPIAN GOVERNMENT INCORPORATE THE AWASH VALLEY DEVELOPMENT AGENCY TO ADMINISTER AND DEVELOP THE NATURAL RESOURCES OF THE AWASH RIVER BASIN. UNDP AND THE FOOD AND AGRICULTURAL ORGANIZATION(FAO) HAVE, SINCE 1965, PROVIDED TECHINICAL ASSISTANCE TO AVDA. SINCE THEN, A NUMBER OF PROJECTS HAVE BEEN IMPLEMENTED IN THE AREA. IDA APPRAISED THE AMIBARA IRRIGATION PROJECT IN 1972. AN IDA CREDIT OF US \$17.0 MILLION WAS APPROVED IN JULY , 1973, TO FINANCE ABOUT 75 PERCENT OF TOTAL PROJECT OCST THEN ESTIMATED AT US \$22.8 MILLION. TOTAL PROJECT OCOSTS HAS RISEN TO ABUT 2-1/2 TIMES THE ORIGINAL ESTIMATED COST. AN IDA RE-APPRAISAL MISSION WAS IN THE FIELD IN JAN/FEB 1976 TO UPDATE THE PROJECT, AND THE ETHOOPIAN GOVERNMENT SUBSEQUENTLY REQUESTED AFDF AND EEC TO JOIN IDA IN FUNDING THE PROJECT.

5. THE PROPOSED PROJECT WOULD BE LOCATED WITHIN THE AWASH RIVER BASIN IN THE MELKA SADI AND AMIBARA PLAINS IN THE MIDDLE AWASH VALLEY. THE AWASH BASIN IS THE ONLY AREA IN ETHIOPIA WITH A LARGE SCALE WATER RESOURCE DEVELOPMENT. THE UNCLASSIFIED

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POTENTIAL IRRIGABLE ALAND IN THE ENTIRE AREA IS ESTIMATED AT 150,000 HA OF WHICH ABOUT 65,000-70,000 HAS BEEN DEVELOPED. TWO ALTERNATIVES METHODS OF DIVERIN WATER FROM THE AWASH RIVER, GRAVITY AND PUMPING, FOR THE PROPOSED IRRIGATION SCHEME WERE EXAMINED. COST ANALYSIS OF THE TWO SCHEMES INDICATED THAT THE LOWER INITIAL INVESTMENT OCST OF THE PUMPING SCHEME WOULD BE OFFSET BY THE HIGHER ANNUAL OPERATING COSTS. THE PROJECT WILL PROVIDE GRAVITY IRRIGATION BY DIVERSION FROM THE AWASH RIVER FO ABOUT 10,300 HA OF LAND IN THE MELKA SADI AND AMIBARA AREAS IN THE AWASH VALLEY, OF WHICH 2,800 HA IS ALREADY DEVELOPED. THE DEVELOPED LANDS HAVE A PUMPED IRRIGATION SUPPLY WHICH WILL BE CONVERTED INTO A GRAVITY SYSTEM. A TOTAL OF 7,500 HA OF NEW LAND WILL BE DEVELOPED. THE NEW AREA WOULD BE DIVIDED BETWEEN LARGE SCALE STATE FARMS (6,700 HA) AND AND SMALLHOLDER SETTLEMENTS(800 HA).

6. COMPENENTS OF THE PROJECT INCLUDE: A) A DIVERSION WEIR ON THE AWASH RIVER; B) IRRIGATION AND DRAINAGE NETWORKS FOR THE 10,300 HA; C) FLOOD PROJECTION DYKES; D) ROADS ALONG THE

MAIN CANALS AND DRAINS; E) DEVELOPMENT OF 2 STATE FARMS OF 1,700 HA EACH, AND A SETTLEMENT FARM OF 800 HA, BOTH IN THE AMIBARA AREA, AND THE EXPANSION OF AN EXISTING STATE FARM BY 3,300 HA; F) TECHNICAL ASSISTANCE INCLUDING ENGINEERING SUPERVISION AND RECRUITMENT OF TECHNICAL PERSONNEL; G) CONTROL MEASURES AGAINST SCHISTOSOMIASIS AND OTHER WATER-BORNE DISEASES; AND H) SERVICE BUILDINGS AND HOUSING. INITIAL DELIVERY OF IRRIGATION WATER TO THE FIRST SECTION OF THE PROJECT AREA WOULD COMMENCE IN ABOUT THE MIDDLE OF PROJECT YEAR 3 (MID 1979).

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7. TOTAL INCREMENTAL SEED COTTON PRODUCTION FROM THE PROJECT WOULD, AT FULL DEVELOPMENT, REACH ABOUT 22,000 TONS PER ANNUM; MAIZE WOULD REACH 420 TONS AND BEANS 60 TONS PER ANNUM. WHILE MOST OF THE FOOD CROPS WOULD BE FOR THE SETTLERS' HOME CONSUMPTION, MAIZE YIELDS WOULD BE LIKELY TO PRODUCE SURPLUS OVER NORMAL FAMILY FOOD REQUIREMENTS. PROJECT INVESTMENT COSTS SUBJECT TO RECOVERY THROUGH LAND AND WATER USE TARIFFS AMOUNT TO ABOUT US \$30 MILLION. THE LOAN WILL BE ON LENT TO ADVDA BY GOVERNMENT AT 6 PERCENT PER ANNUM OVER 50 YEARS INCLUDING 8 YEARS GRACE PERIOD FOR BOTH INTEREST AND PRINCIPAL.

8. THE PROJECTED BENEFITS FROM THE PROJECT WOULD BE THE INCREMENTAL OUTPUT OF COTTON, MAIZE AND BEANS; EMPLOYMENT FOR THE RURAL POPULATION OF THE AREA; AND FOREIGN EXCHANGE EARNING FROM THE EXPORT OF COTTON. THE OVERALL ECONOMIC RATE OF RETURN FOR THE PROJECT OVER 50 YEARS WOULD BE 13.00 PER CENT. IN THIS ANALYSIS FOREIGN EXCHANGE WAS SHADOW PRICED AT A RATE OF BIRR 2.70 PER US \$1.00 (AS COMPARED WITH AN OFFICIAL

RATE OF BIRR 2.07(US \$1.00). UNSKILLED FARM
LABOR WAS SHADOW PRICED AT 50 PERCENT OF THE STANDARD WAGE RATE.
AN INCREASE IN PROJECT COSTS BY 20 PERCENT WOULD REDUCE TH RATE OF
RETURN TO 11.1 PERCENT, WHILE A DECREASE N PRODUCTION YIELDS OR
PRICES BY 20 PERCENT WOULD REDUCE IT TO 8.9 PERCENT. A DELAY IN
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PROJECT BENEFIT BY ONE YEAR WOULD RECUCUE THE RAE OF RETURN TO
11.5 PERCENT. IT IS ESTIMATED THAT REGULAR EMPLOYMENT FOR ABOUT 3,500
FARM WORKERS AND SEASONAL EMPLOYMENT(THREE MONTHS PER YEAR FOR
ABOUT 7,500 WORKERS WOULD BE CREATED. DURING THE CONSTRUCTION
PERIOD, IT IS ESTIMATED THAT UP TO 750 WORKERS WOULD BE
EMPLOYED ON CONSTRUCTION OF THE PROJECT INFRASTRUCTURE. THE
PER CAPITA INCOME FOR A FAMILY OF FIVE IS EXPECTED TO RISE
FROM AN AVERAGE IN THE AREA OF BOUT BIRR 60 TO BIRR 422
AT FULL DEVELOPMENT.

9. PRECEDENT TO THE FIRST AFDF DISBURSEMENT, THE GOVERNMENT
MUST HAVE SIGNED LOAN AGREEMENTS WITH IDA AND THE EEC. STEARNS

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Message Attributes

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